



**FOR ACTIVE MEMBERS**



# THE PLAN

**Water and Power Employees' Retirement Plan**

**Winter 2014**



Los Angeles Department of Water & Power  
Los Angeles, California 90051-0100



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# Greetings from the Board President, JAVIER ROMERO



Holiday greetings to all of you and your families from the Retirement Board and staff of the Retirement Office. Another year has almost passed so I would like to take this opportunity to reflect on the many changes the Plan has undergone this year, including the addition of Tier 2. Although we have implemented this new tier of retirement benefits for new hires as of January 1, 2014, the retirement benefits for active members hired prior to January 1, 2014 and retirees have not changed.

As a result of the financial crisis of 2008, the Board made a conscious decision to prudently implement the phase-in of the Board's adopted long-term asset allocation targets as opportunities presented themselves. We expect to fund our new fixed income strategies within the coming months to complete the final phase-in of all asset categories and be fully aligned with all target levels.

The Plan was recognized this year by Reuters PE HUB as Number 3 of the Top 10 U.S. Public Pension Private Equity Portfolios. PE HUB is an interactive forum for the global private equity community, which provides news and views

from and about peers. In addition, the Plan is also nominated as a finalist for the CIO (Chief Investment Officer) Magazine Industry Innovation Award for Public Defined Benefit Plans.

Earlier this year, the portfolio hit close to the \$12 billion mark for a short time, a first for WPERP. Even though the market has fluctuated since then, the portfolio remains strong. As of September 30, 2014, the aggregate market value of assets totals \$11.2 billion, an increase of over \$1 billion from the \$10.1 billion reported for the period ending September 30, 2013. These investment gains and other favorable experience will continue to offset the recession's lingering effects on our funding status. As of June 30, 2014, the funding status for pension benefits was 88.5% on a market basis, up from 82.3% last year. Be assured, the Retirement Board will continue to pursue every avenue in order to keep the Plan on solid financial ground.

The success that we have experienced thus far, are a direct result of having a very cohesive Board committed to the Plan, making prudent decisions and a hard working staff supporting those efforts. I would like to send a special thank you to IBEW Local 18, especially Brian D'Arcy for always supporting this Board in its efforts to ensure our fiduciary obligations to the Plan.

Wishing you all a safe and happy holiday season!

Javier Romero

## New Single Distribution Rule for Retirement Plans

Beginning January 1, 2015, when plan members chose to direct their retirement plan distributions to go to multiple destinations, the amounts will be treated as a single distribution for allocating pre-tax and after-tax basis. Therefore, if you plan on taking a distribution from your retirement account and have both pre-tax and after-tax money, this new rule will allow plan members to:

- Roll over amounts to both a Traditional IRA and a Roth IRA, and
- Allocate the pre-tax amount of the distribution to the Traditional IRA and the after-tax amount to the Roth IRA.

Currently, a distribution split between a direct rollover to an IRA and an actual distribution of funds would each be considered a separate distribution. If a member's account contained both pre-tax and after-tax amounts, each distribution would include a pro rata share of both. A member could not choose to transfer the pre-tax amount to a traditional IRA and the after-tax amount to a Roth IRA.

However, this new IRS rule beginning on January 1, 2015 will allow you to choose whether you would like the pre-tax and after-tax amounts to be rolled over to separate IRA's. If you have any questions in regards to this new IRS rule, please visit the IRS website at [www.irs.gov](http://www.irs.gov) or consult with your tax professional to discuss this new rule.

## Retirement Application Dates for 2015

The following is the retirement application dates and deadlines to apply for calendar year 2015:

| RETIREMENT DATE   | LAST DAY TO APPLY |
|-------------------|-------------------|
| January 1, 2015   | December 2, 2014  |
| February 1, 2015  | January 2, 2015   |
| March 1, 2015     | January 30, 2015  |
| April 1, 2015     | March 2, 2015     |
| May 1, 2015       | April 1, 2015     |
| June 1, 2015      | May 1, 2015       |
| July 1, 2015      | June 1, 2015      |
| August 1, 2015    | July 2, 2015      |
| September 1, 2015 | July 31, 2015     |
| October 1, 2015   | September 1, 2015 |
| November 1, 2015  | October 2, 2015   |
| December 1, 2015  | October 30, 2015  |
| January 1, 2016   | December 2, 2015  |

If you are interested in applying for retirement, please contact the Retirement Office at (213) 367-1712.

# Investments

The Retirement Board and Investment Staff continuously strive to stay well-informed and educated of economic and investment trends in order to achieve optimal results for the Plan's portfolio. As part of this effort, the Investment staff will occasionally meet with notable members of the investment community, such as Nobel Laureate Dr. Robert Merton. In July 2014, Dr. Merton visited the Retirement Office to discuss his ideas on the economy and portfolio management with the Interim Retirement Plan Manager and the Investment Staff. The discussion provided valuable information and insight into the management of the asset classes within the Plan's portfolio.

Dr. Merton currently teaches at the Massachusetts Institute of Technology and serves as an advisor to Dimensional Fund Advisors, one of the Plan's Real Estate Investment Trust managers. In 1997, Dr. Merton was awarded the Alfred Nobel Memorial Prize in Economic Sciences for his work on a new method to determine the value of derivatives. A derivative is a special type of contract that derives its value from the performance of an underlying asset, such as an equity index or interest rates. Common forms of derivatives are options and futures.

The Plan's portfolio is invested in a variety of asset classes, including domestic and international equity, fixed income, real estate, private equity, and alternative investments. The Retirement Board is in the final stages of adding new fixed income strategies to the portfolio such as the global credit and bank loans to further

protect the portfolio. Adding new strategies and rebalancing the portfolio to match the target percentages takes time. Therefore, there are often differences between the actual and target allocation, as shown below.

The Board's adopted long-term asset allocation targets and the portfolio's current allocation are as follows:

| ASSET CLASS          | Target Percent | As of 9/30/14 |
|----------------------|----------------|---------------|
| Domestic Equity      | 33.0%          | 38.5%         |
| International Equity | 21.0%          | 21.9%         |
| Fixed Income         | 24.0%          | 20.5%         |
| Covered Calls        | 5.0%           | 7.2%          |
| Real Estate          | 5.0%           | 3.6%          |
| Private Equity       | 5.0%           | 2.0%          |
| Real Return          | 6.0%           | 5.6%          |
| Cash                 | 1.0%           | 0.7%          |

The Retirement Board has adopted this diversified asset allocation structure to maximize investment returns while incurring a prudent level of volatility in those returns. Careful attention is given not only to how the various classes perform during different market cycles, but also how they perform relative to each other. By having strategic classes that perform differently, the chance of significant losses is reduced.

As of September 30, 2014, the Retirement Plan had an aggregate market value of assets



of \$11.2 billion. The Plan's portfolio has outperformed the median (more than half the) public sector plans of similar size and assets by 0.55% as of September 30, 2014.

The Retirement Board's general investment consultant, Pension Consulting Alliance, Inc. (PCA) remains cautiously optimistic about the portfolio returns in fiscal year 2015. Fiscal year 2014 results were very strong, so expectations for the future should be more muted. PCA also notes that they are expecting higher future interest rates, which will likely have a dampening impact on bond markets. However, the Plan's portfolio is well diversified to help minimize interest rate risk, having restructured the fixed income portfolio in 2014. In addition, the market continues to take the winding down of the Federal Reserve's economic stimulus program in stride. This "quantitative easing" program was used to provide support for continued economic growth. While the economy continues to produce mixed growth results, enough improvement has occurred over the last year to allow the Federal Reserve to conclude that further stimulus support is no longer required.

The next important review of the portfolio will be done this winter using returns from December 31, 2014.

## Deferred Compensation Plan Retirement Income Projection Calculator

How much do you need to retire? The Deferred Compensation Plan has a new online tool to help you figure this out.

City employees generally associate retirement with an age (e.g. 55 or 60) or whatever point in time they have the age and years of service for normal retirement. They may have a general idea of how much income replacement (expressed as a percentage of gross salary), they'll receive from their retirement plan.

It is important, however, to drill down farther. The objective of retirement preparation is **retirement income security**. Retirement income security for most people means being able to generate sufficient income in your retirement years to be able to maintain the standard of living you had while you were still working.

But is our gross salary really our standard of living? In fact, no one lives off gross salary because everyone has deductions (e.g. for retirement and Deferred Compensation contributions). Our income after deductions, such as retirement contributions and Medicare, represents our true standard of living.

The Deferred Compensation Plan's **Retirement Income Projection Calculator** adds up projected income from your DWP Retirement Plan, Deferred Compensation Plan, and other income sources, and then compares the sum to your net "standard of living" income you're likely to be receiving at the time you retire. The result is a percentage: the calculator computes percent of net income replacement you're likely to receive.

Ideally, everyone would like their replacement percentage be 100%. If not, the calculator allows you to easily go back in and change certain variables (such as contribution amount, assumed rate of return, etc.) to see what you need to do to hit your target. You can go back and play with different scenarios as often as you'd like.

To try this out, log in to your Deferred Compensation account today at [www.cityofla457.com](http://www.cityofla457.com) and try the calculator. If you do not have online access to your account, call 888-457-9460 and speak with a Plan representative to request online access.

# Mary's Winter 2014 message



The Retirement Office continuously strives to improve the services we deliver to our members. These enhancements are normally applied to our internal operations or usually provided directly to employees applying for retirement or disability benefits. However, the next focus of our service improvement efforts will benefit the general active membership of the Retirement Plan. In the Spring 2014 issue of the Newsletter, I mentioned we plan to roll out a new functionality on our website. This new functionality will be coming to fruition this January 2015. One of the most significant tools will be an enhanced retirement estimate calculator which will compute your estimated retirement allowance using the most current salary and service credit information stored in the Retirement

Office's computer system, Integrated Pension System. In addition, you will also be able to view purchased service contracts that have been fully paid and City time transferred to DWP under the reciprocity program. Summary screens will detail your most current service credit, accumulated regular contribution totals and additional contribution balance, if applicable.

Please log onto the Retirement website in January to check out these new tools! We encourage you to email us your feedback and overall experience on this new enhancement. Our email is [retire@ladwp.com](mailto:retire@ladwp.com). We value your input and we use it to help us improve our service to all members and stakeholders of the Plan.

These noteworthy enhancements to the website were developed by the Retirement Office's Systems staff with valuable guidance and assistance from the Department's ITS Division.

## Valuation Results

At the September 24, 2014 Retirement Board Meeting, Segal Consulting presented the Actuarial Valuation and Review of the Retirement Fund as of July 1, 2014. The valuation was based on assumptions recommended by Segal; detailed in the Actuarial Experience Study for the period July 1, 2009 through June 30, 2012; and adopted by the Retirement Board at its April 9, 2014 Board meeting.

The valuation indicates the Plan's funded ratio on an actuarial basis increased from 78.8% in FY 2012/13 to 80.9%; the funded ratio on a market basis increased significantly from 82.3% to 88.5%. The funded ratios compare the system's total assets to its liabilities. This information is very positive for the Water and Power Employees' Retirement Plan.

The valuation also recommended an increase in employer contribution rate from 47.3% in FY 2013/14 to 50.6% in FY 2014/15 for Tier 1 and Tier 2 combined. The breakdown of the contribution rates are 50.72% for Tier 1 and 39.27% for Tier 2. The most significant of the assumption changes was the mortality assumption, which increased the required contribution rate by 5.63% of compensation. The Retirement Board elected to phase-in the impact of new actuarial assumptions on the required contribution rate over a two-year period, beginning with the 2014-2015 fiscal year. The phase-in rate is 46.17% for Tier 1 and Tier 2 combined, with a rate of 46.25% for Tier 1 and 35.70% for Tier 2.

In addition, the valuation included the changes required to comply with Statement 67 of the Governmental Accounting Standards Board (GASB 67).

For any questions in regards to the Retirement Fund Valuation, please contact the Retirement Plan Office at (213) 367-1712.



## How To Reach Us

### TELEPHONE

DWP Retirement Toll Free: (800) 367-7164

DWP Retirement Office: (213) 367-1715  
(Retirement Applications, Beneficiary Changes, Report the Death of Retiree/Eligible Spouse)

DWP Disability:  
(213) 367-1680

DWP Health Plan and Medicare:  
(800) 831-4778

DWP Credit Union:  
(800) 300-9728

DWP Employee's Association:  
(213) 367-3146

DWP INTAKE Magazine:  
(213) 367-1361

LACEA (City Club):  
(213) 620-0388

EAP (Horizon Health):  
(888) 439-7327

I.D. Badges:  
(213) 367-3303

### INTERNET

<http://retirement.ladwp.com>

E-Mail: [retire@ladwp.com](mailto:retire@ladwp.com)

### MAIL

Water and Power Employees'  
Retirement Plan  
111 North Hope Street  
Room 357  
Los Angeles, CA 90012

We welcome your suggestions and comments regarding this newsletter. Please email us at [retire@ladwp.com](mailto:retire@ladwp.com).